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C O N F I D E N T I A L SECTION 01 OF 02 PRAGUE 001203

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SUBJECT: CZECH OPPOSITION ON 05 CAMPAIGN, 06 ELECTIONS

Classified By: Political Officer Mark Canning for reasons 1.4(b) and (d).

1. (C) SUMMARY. One hundred days after new PM Jiri Paroubek took office, and 10 months before parliamentary elections, three shadow ministers from the main opposition party, the Civic Democrats (ODS), shared with the Ambassador their expectations for the time remaining before next June's elections, as well as possible outcomes of that vote. ODS expects the main coalition partner, the left-of-center Social Democrats, to pass populist legislation on taxes, health care, and rent control this year to bolster their voter base. The three also all predict that if the Social Democrats receive enough votes to form a coalition government with the Communists, they will do so, in spite of previous agreements and traditions prohibiting this. All solidly discounted the formation of another "Grand Coalition" between ODS and CSSD.
END SUMMARY

RED STAR OVER PRAGUE?

2. (C) Recent polls have shown only four parties getting enough votes to make it over the 5% threshold required for seats in parliament: two parties on the left, the Social Democrats (CSSD) and the Communists (KSCM); and two on the right, the Civic Democrats (ODS) and the Christian Democrats (KDU-CSL). None of the parties is likely to get enough votes to form a government on its own, so a coalition will be unavoidable. Vlastimil Tlustý, shadow finance minister and head of the ODS parliamentary caucus, said the ODS goal is to win enough votes to form a government with the Christian Democrats. Tlustý stated, quite unequivocally, that even if ODS gets the most votes of the four parties, if ODS and KDU-CSL together fail to win enough seats to form a government, the most likely scenario would be a coalition government between the remaining two parties, the Social Democrats and the Communists. Tlustý said that the 1997 Bohumin Accord, under which the Social Democrats resolved not to form cabinets with the Communists, was "history." Tlustý rejected the idea of a coalition between ODS and CSSD saying that either ODS would receive enough votes to rule with the support of the Christian Democrats, or the Social Democrats would receive enough votes to rule with the support of the communists. He saw no scenario in which ODS would cooperate with the Social Democrats. Jiri Pospisil, shadow justice minister, concurred, and agreed that it is only a matter of time before the Social Democrats and the Communists join forces. Pospisil said the two parties are ideologically too close to each other to not cooperate. He predicted that if they do not join forces for the 2006 election, they would for the next vote in 2010. Pospisil sees this as an inevitable rationalization of the political spectrum.

3. (C) One other scenario that the ODS leaders thought was possible, but unlikely, was the emergence of a small fifth party that could add a few, but essential seats to either the left or right coalitions, enabling them to form a government. The Greens Party is currently polling at roughly 3%, considerably short of the 5% needed. If it did succeed, Pospisil believes the Greens would lend their support to the Social Democrats and the Communists. Another small party that is polling between 2% and 3% is the Party of Independents, led by current MEP and former business partner of Ronald Lauder, Vladimir Zelezny. Pospisil predicted that the Independents would support ODS and KDU-CSL if they passed the threshold. However, both Tlustý and Pospisil said they were unaware of any party efforts to reach out to potential new, small partners.

NEW LEGISLATION & NEW SCANDALS?

4. (C) Tlustý predicted that the current governing coalition would pass populist measures between now and next June's election, but that nothing controversial or long-awaited, such as needed pension reform, would get any attention. Tlustý felt that progressive tax reforms proposed by the Social Democrats, which in contrast to the flat tax proposed by ODS would bring greater benefits to those with lower incomes, would pass. He estimated the bill's chances of passage as 100 percent. Tlustý and Shadow Health Minister, Senator Tomas Julinek, also believe the Social Democrats' reforms for health care, which would not include any

co-payments by patients, will pass, though they could be held up for a couple of months by the Senate, and a month by the President. Tlustý also foresees a pay raise for civil servants and the sacking of 3 or 4 of the least popular cabinet ministers in October or November. Pospisil predicted that his draft for a new law on bankruptcy, written with assistance from the American Chamber of Commerce, would not pass because it is perceived as benefiting large, profitable banks at the expense of small entrepreneurs.

15. (C) Tlustý complained about the nexus of businessmen and politicians now in power. He said businesses had "invested" a great deal in the current government leaders and would take any and all measures they could to keep these people in power. Tlustý, however, feels that two scandals could become campaign issues this fall. The first of these involves the bankruptcy of IBP, a bank that had been the third largest in the Czech Republic. The bank was put into forced administration in June of 2000, by a Social Democrat government, after a central bank probe discovered a shortfall of more than US \$1 billion in the bank's reserves. Nomura Securities owned 46.6% of the bank and suffered heavy losses, for which it is now seeking compensation. Tlustý estimates that the award to Nomura could potentially be as high as US \$1.5 billion. The second potential scandal involves bonds worth 170 million Euros that were issued after floods in 2002, when current premier Jiri Paroubek was in charge of Prague's finances. The transaction was handled by Deutsche Bank, which, according to Paroubek's critics, was selected in a non-transparent tender. In addition, the city lost more than US \$5 million through interest rate speculation on the Euro denominated bonds.

PROBLEMS IN THE ODS CAMP - OPPOSITION WITHIN THE OPPOSITION

16. (C) There are several reasons why ODS is not looking as strong as the shadow ministers would like, in spite of this spring's resignation by CSSD PM Stanislav Gross. First of all, the party's leader, Miroslav Topolánek, faces opposition within the party and has spent much of the past few months overseas including a recent 5-day trip to China and Mongolia. In addition, the party has been split on some issues, such as the recent vote on fees for public television. Finally, ODS stalwarts at the local and regional level are not personally motivated to help the party in next summer's parliamentary election. There are actually two sets of elections next year. The first, scheduled for next summer, is the elections to the Chamber of Deputies. The second elections, for the Senate, and local and regional governments, are scheduled for the fall. ODS should do very well in the second set of elections, as it already has 13 of the 14 regional governor positions, and 37 of the 81 seats in the Senate. Tomas Julínek, ODS shadow health minister and head of the ODS Senate Caucus, thinks ODS will pick up as many as four more seats, possibly giving it a clear majority in the Senate. But both Julínek and Tlustý said it is difficult to make use of the popularity of the governors and senators, who as a rule don't campaign for their colleagues in the Chamber of Deputies and don't need the shirrtails of national party figures in the way state and local politicians in America do.

17. (C) COMMENT. With elections 11 months away, the political parties are clearly entering campaign season with a great deal of posturing and populist appeals to the electorate. ODS has lost 9 points in the polls over the last few months but could rebound if it comes up with a better strategy and more disciplined leadership. Nevertheless, because of the numbers, Tlustý's scenario of likely coalition partnerships, including a CSSD-Communist coalition is plausible. The Social Democrats and the Communists together won 110 of the 200 seats in the 2002 election, and since then have consistently done, as well as, or slightly better than the combined votes of the Civic Democrats and the Christian Democrats. Some of this is ODS fearmongering. Even Jan Kavan, the leader of a left-wing faction within the Social Democrats told poloff that the current leadership of the Communist party, particularly party Chief Miroslav Grebeníček and one of the five party vice-chairs, Václav Exner, now 63, are too hardline for CSSD. Kavan explained that KSCM would have to undergo some sort of reform, such as increasing the role of young moderates like vice-chair Jiri Dolejš, before CSSD would be willing to renounce the Bohumin Agreement and make a formal alliance with the Communists. Tlustý, nevertheless is adamant that if the Social Democrats finish the election with the choice of either ruling with some form of support by the Communists, or not ruling, they will choose the former. END COMMENT.